

The State of the (Software) Estate: Waste Is Running Rampant in Enterprises

2016 Key Trends in Software Pricing & Licensing Survey Report

FLEXERA[®]
SOFTWARE

Introduction	3
Software Asset Management Is A Growing Strategic Imperative	4
Cost Avoidance & Compliance Are Top Reasons for Managing Software Assets.....	5
Software Budgets Remain Tight.....	6
Software Asset Management and Cybersecurity Are Converging.....	7
Enterprises Are Deploying Divergent Strategies to Manage Their Software Licenses	8
Most SAM/Software License Optimization Solutions Used Are Deployed On-Premises	9
SAM Satisfaction Is on the Rise	10
Most Organizations Are Out of Compliance with Their Software License Agreements	11
The Frequency of Software License Compliance Audits Is Increasing.....	12
Six- and Seven- Figure True-Up Costs Are Also the Rise	13
All the Major Vendors Audit Their Customers – Though Some Do So More Frequently Than Others	14
Some Organizations Are Self-Auditing in Anticipation of Vendor Software License Audits	15
Most Organizations Have Underused Software – “Shelfware”	16
Most Organizations Aren’t Fully Utilizing Their Software Entitlements	17
Failure to Optimize Software Licenses Could Account for Compliance, Shelfware and Software Underuse	18
Conclusion	19
Survey Background.....	19
Methodology and Sampling.....	19
Enterprise Demographics	19
Application Producer Demographics.....	20
Infographic:	22
About Flexera Software.....	23



The State of the (Software) Estate: Waste Is Running Rampant in Enterprises

A 2016 Key Trends in Software Pricing & Licensing Survey Report

Introduction

C-level executives must be aware of and manage all waste that could impact the organization's finances and operations. Software counts as one of the most critical assets to any organization, as applications run all corporate systems. Managing the software license lifecycle is an increasingly complex task – and the failure to do so properly can significantly expose a company to needless cost and risk.

Those costs and risks cover a lot of territory, from the financial risk of unbudgeted software license true-ups resulting from non-compliant software use – usually uncovered during a vendor software license audit. Or the cost of shelfware – when organizations buy more software than they need, or underutilize the software they have. Indeed, according to IDC, Software License Complexity Will Indirectly Cost Organizations an Average of 25% of Their Software License Budgets in 2016¹

Cybersecurity risk is also a significant and growing concern. The recent spate of cyber-security breaches, like the [Sony](#) and [Anthem/BlueCross Blue Shield](#) incidents, underscores just how vulnerable enterprises are to malware and hacker attacks. According to a recent [IDC report](#), the more unlicensed software running on an organization's network, the greater the malware risk. This is because hackers often can gain entry through malicious code they embed in software, like a Trojan horse, that employees intentionally or inadvertently download. Accordingly, an organization's inability to effectively and continuously discover and inventory its software estate creates a significant risk vector, and accordingly must be factored into its Software Asset Management (SAM)/Software License Optimization strategy.

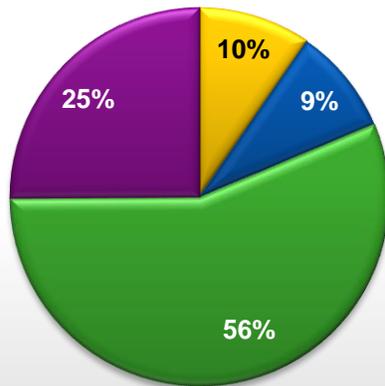
According to our survey, software waste is rampant – impacting the vast majority of enterprises. The numbers are stark and should serve as a wakeup call to CEOs, CIOs and CFOs regarding the need to implement the SAM/Software License Optimization processes and technology to reduce these risks and recover wasted investment in software.

¹ IDC FutureScape: Worldwide Software Pricing and Licensing 2016 Predictions, Amy Konary, November 2015

Software Asset Management Is A Growing Strategic Imperative

Awareness among enterprises as to the importance of Software Asset Management is growing. According to the survey, 81 respondents of organizations surveyed said that, compared with other objectives, managing software licenses and usage is either important or very important. This is up 15% from 66 percent in 2015.

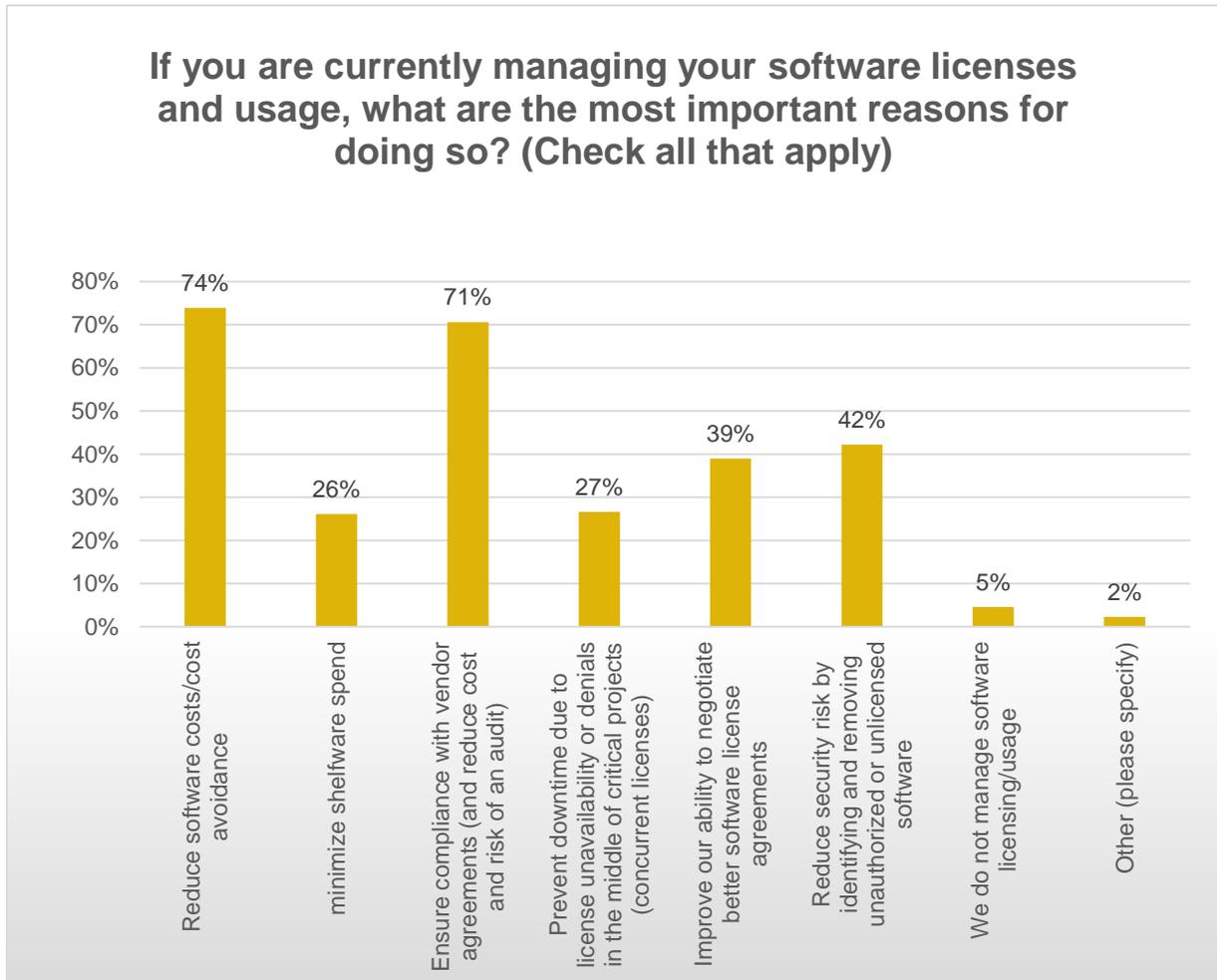
Compared to your other objectives, how important is managing software licenses and usage to your organization?



Very unimportant Unimportant Important Very important

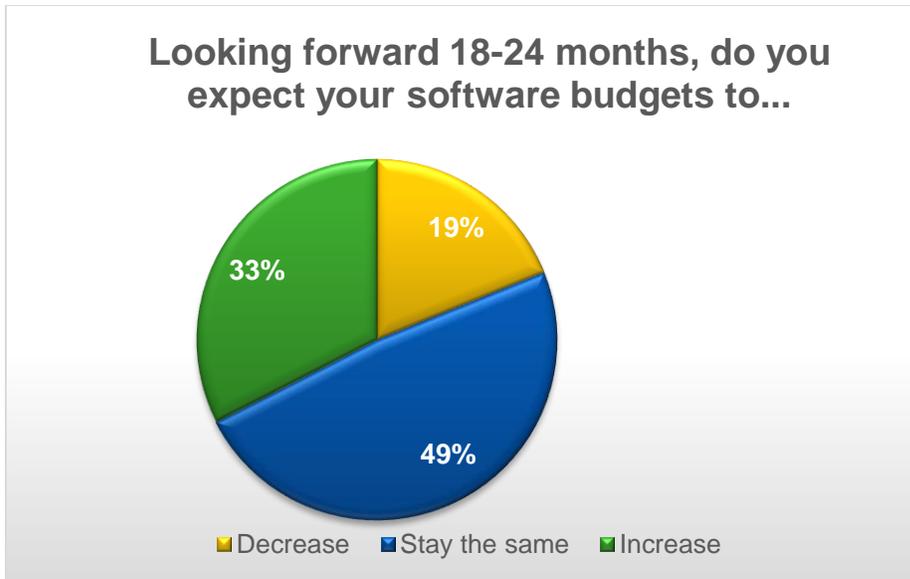
Cost Avoidance & Compliance Are Top Reasons for Managing Software Assets

Respondents cite a wide variety of reasons for proactively managing their software licenses and usage. Among the top reasons – reducing software costs/cost avoidance (74 percent), ensuring software license compliance/reducing audit risk/costs (71 percent), and reducing risk by discovering and removing unauthorized or unlicensed software from their systems (42 percent).



Software Budgets Remain Tight

Constrained software budgets are also focusing attention on how effectively software assets are managed within the enterprise. According to the survey two thirds of enterprises report that within the next 18-24 months their software budgets will either stay the same or decrease. Only a third of respondents indicated that their software budgets would increase.

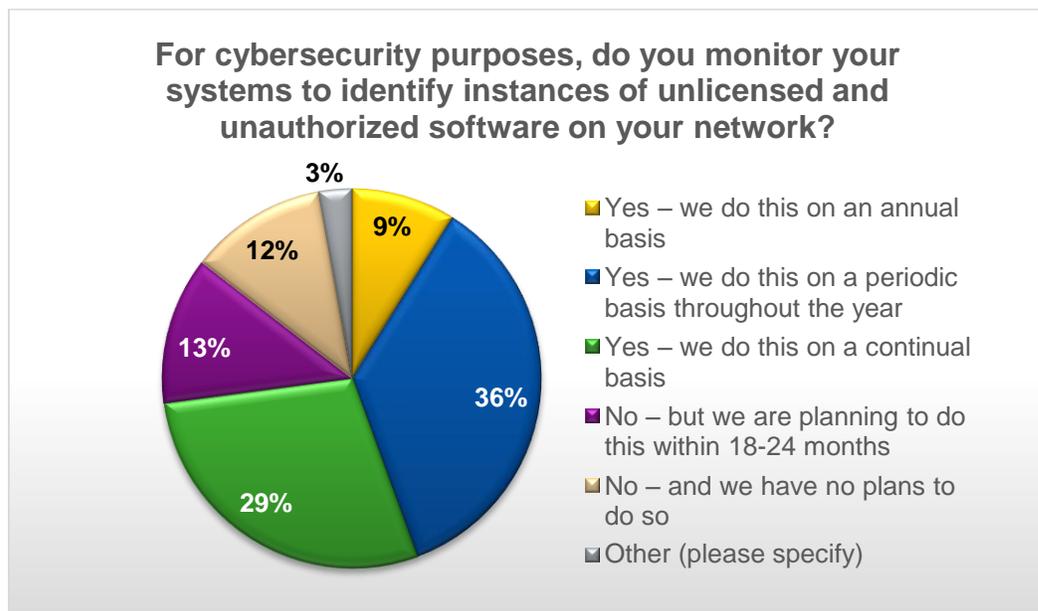


Software Asset Management and Cybersecurity Are Converging

SAM/Software License Optimization solutions discover and inventory software running on the network as a foundational aspect of managing the software estate. It is only by having this inventory data that higher level functions such as continual software license compliance and license optimization can be achieved.

The ability to discover and inventory software is also a critical underpinning to effective cybersecurity. Organizations must actively manage (inventory, track and correct) all software on their network so that only authorized software is installed and can execute. They must also ensure that unauthorized and unmanaged software is found and prevented from installation or execution. This is critical because malicious attackers continuously scan and target organizations, looking for vulnerable versions of software that can be remotely exploited. A recent IDC [study²](#) sponsored by BSA/The Software Alliance found that the more unlicensed software running on an organization's network, the greater the malware risk. That report concludes that lowering the incidence of unlicensed software will lower cybersecurity risk.

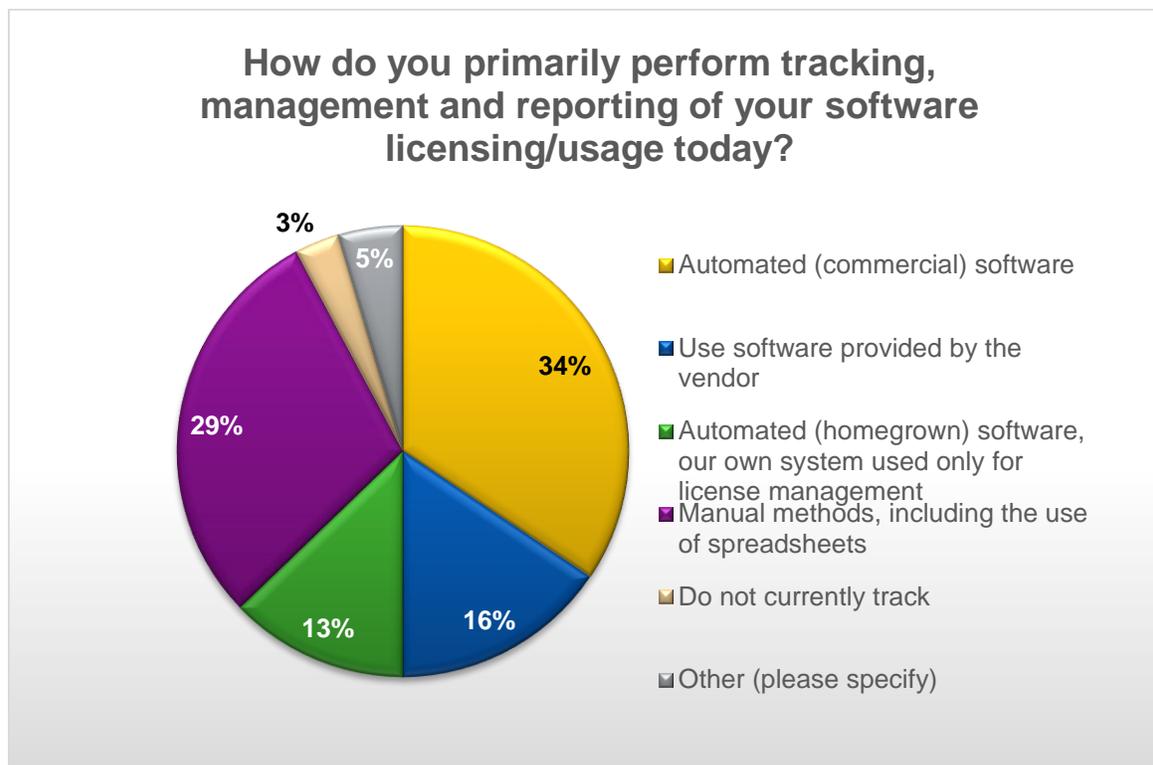
According to our survey, organizations have gained awareness that SAM and cybersecurity go hand-in-hand. Almost three quarters of organizations – 73 percent – monitor their systems to identify instances of unlicensed and unauthorized software on the network for cybersecurity purposes. However, only 29 percent do so continuously, which brings into question whether those respondents' current SAM strategy is adequate to form the basis of effective cybersecurity efforts.



² IDC White Paper, sponsored by BSA/The Software Alliance, Unlicensed Software and Cybersecurity Threats, January 2015.

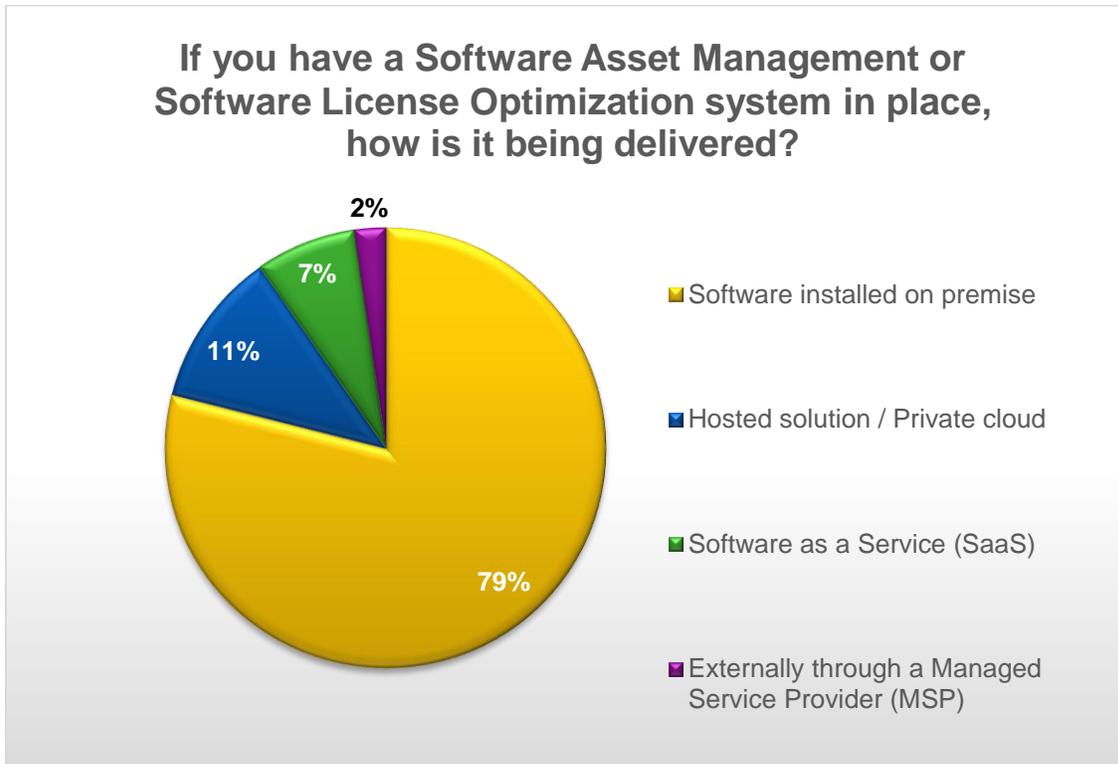
Enterprises Are Deploying Divergent Strategies to Manage Their Software Licenses

While even more organizations are proactively managing their software compared to last year (in this year's study only three percent of enterprises admit to not tracking their software, compared to seven percent in 2015) – the strategies they're relying upon to do so vary widely. Those include commercial solutions, i.e., Software Asset Management (SAM)/Software License Optimization software) (34 percent), manual methods (29 percent) and using tracking tools provided by their software vendors (16 percent).



Most SAM/Software License Optimization Solutions Used Are Deployed On-Premises

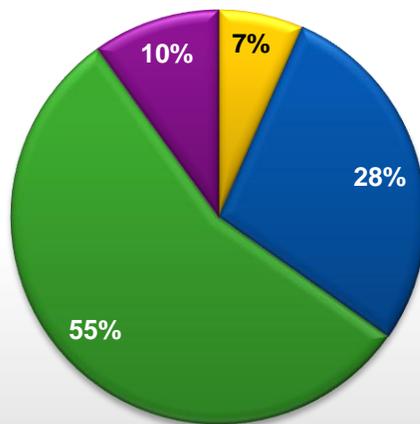
Of the respondents using SAM/Software License Optimization solutions to manage their software licenses and usage – the vast majority (79 percent) deploy those systems locally on premises. Only 11 percent use hosted/private cloud solutions, and seven percent use SaaS-based solutions.



SAM Satisfaction Is on the Rise

Of the enterprises currently managing their software licenses and usage, 65 percent say they are either satisfied or very satisfied with their methods. This is up significantly from 32 percent the previous year and could signify progress in SAM/Software License Optimization implementations that are now yielding greater ROI.

If you are currently managing your software licenses and software usage, how satisfied are you with the current method?

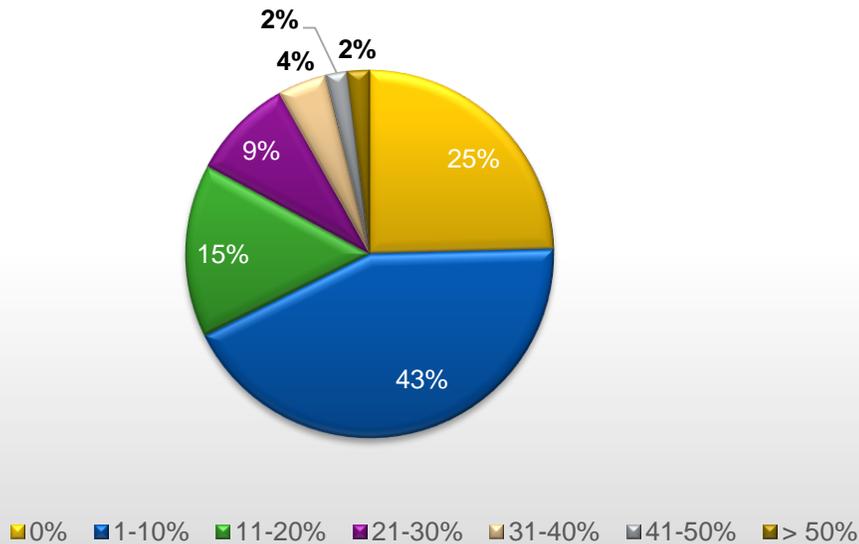


Very dissatisfied Dissatisfied Satisfied Very satisfied

Most Organizations Are Out of Compliance with Their Software License Agreements

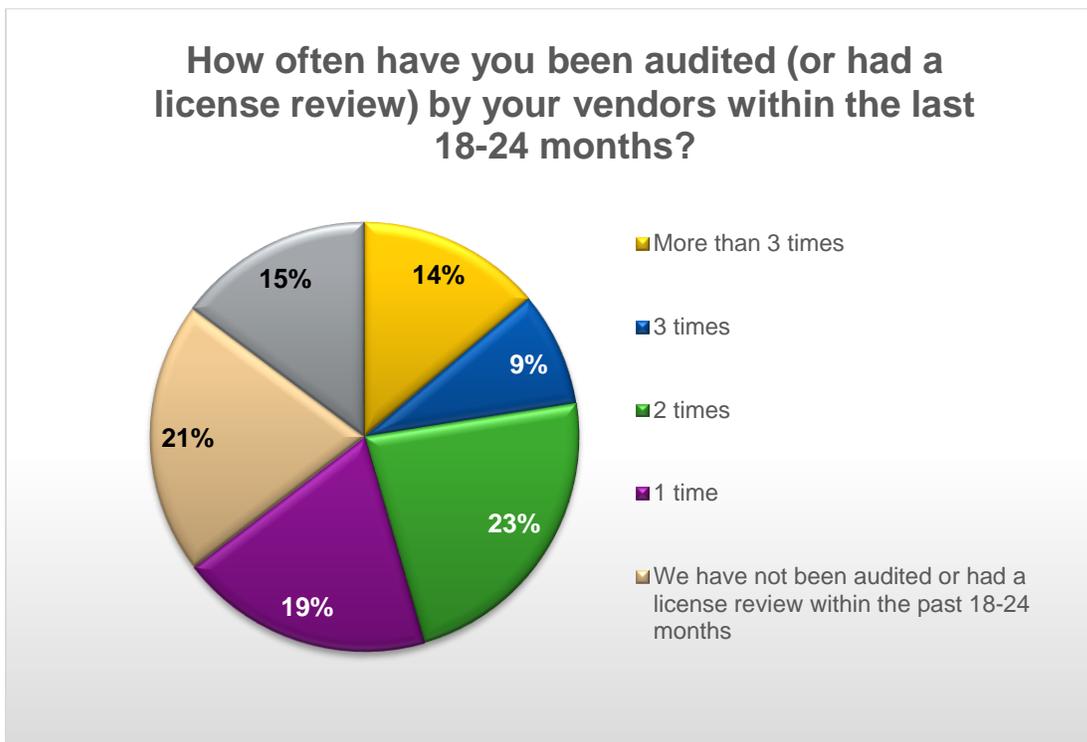
The vast majority of respondents, 75 percent, report that at least some percentage of their software license spend is the result of software overuse, (use that is out of compliance with their license agreements). Of those reporting some level of non-compliance, almost a third – 32 percent, say that as much as 11 percent or more of their software spend is due to non-compliant use.

What percentage of software license spend within your organization do you estimate is associated with applications that are overused and therefore out of compliance?



The Frequency of Software License Compliance Audits Is Increasing

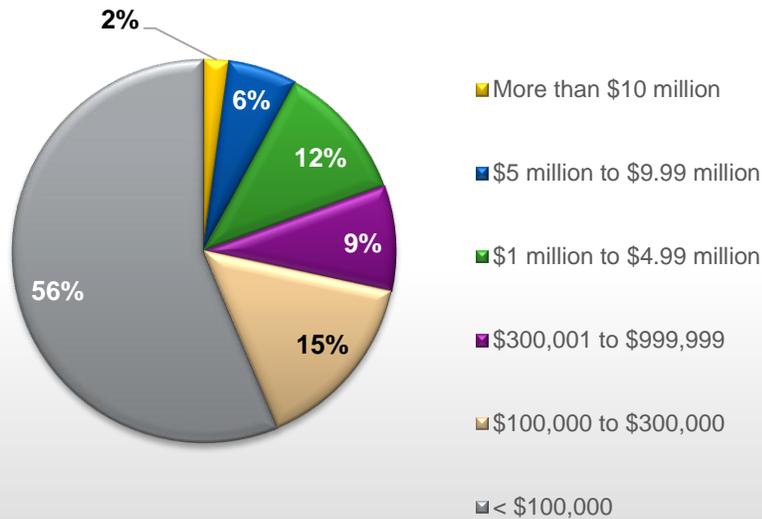
Most organizations face significant risk as a result of software license noncompliance. This is because software vendors are regularly auditing their customers or performing license reviews – during which they can uncover incidents of software license noncompliance. Indeed, 64 percent of enterprises (up from 63 percent last year) faced a software audit within the past year. 46 percent (up from 38 percent last year) were audited more than once. And 23 percent (up from 19 percent last year) were audited three times or more.



Six- and Seven- Figure True-Up Costs Are Also the Rise

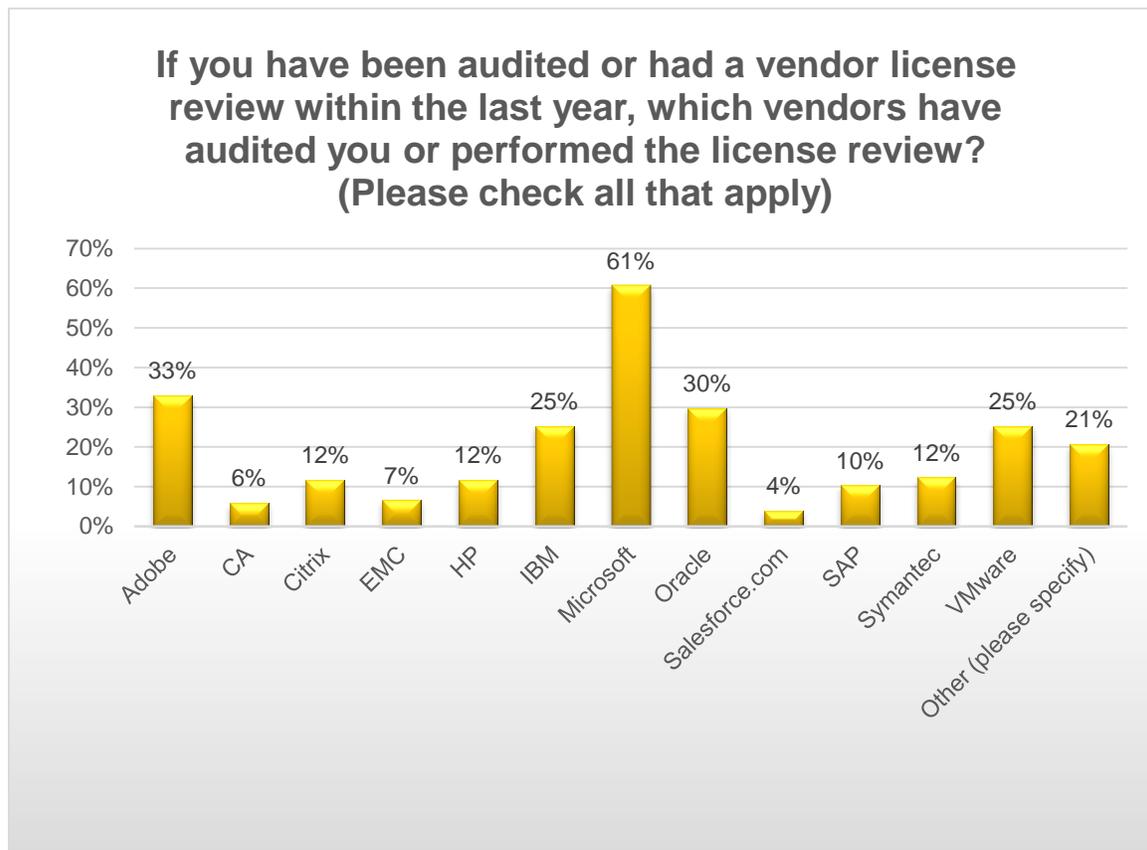
Not only are the frequency of software license audits on the rise – but the amount enterprises are paying to their vendors to “true-up” – compensate them for incidents of software license non-compliance – is also on the rise. For example 44 percent of respondents this year (compared to only 25 percent last year) report that their true-up cost paid to vendors was \$100,000 or more. 20 percent of enterprises (up from only nine percent last year) report that their true-up costs were \$1,000,000 or more.

What was your total software audit/license review true-up cost within the last year for your organization?



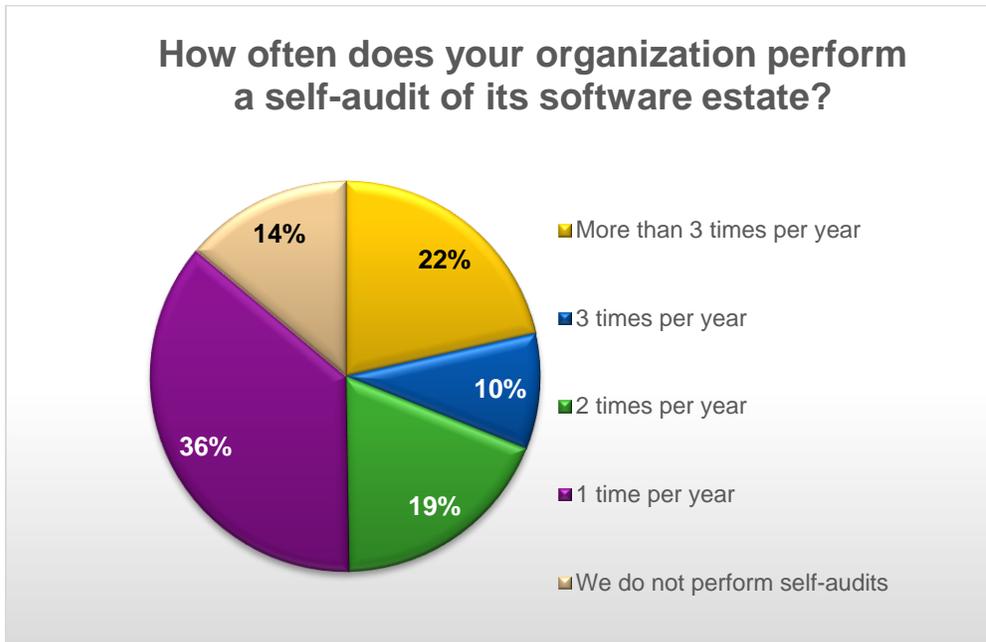
All the Major Vendors Audit Their Customers – Though Some Do So More Frequently Than Others

Enterprises report that all of the major vendors asked about in the survey have conducted audits or license reviews within the last year – though the frequency varies widely. For instance, 61 percent of respondents report that they faced an audit or underwent a license review with Microsoft this past year. 33 percent report being audited or having a license review with Adobe, and 30 percent report being audited or having a license review with Oracle.



Some Organizations Are Self-Auditing in Anticipation of Vendor Software License Audits

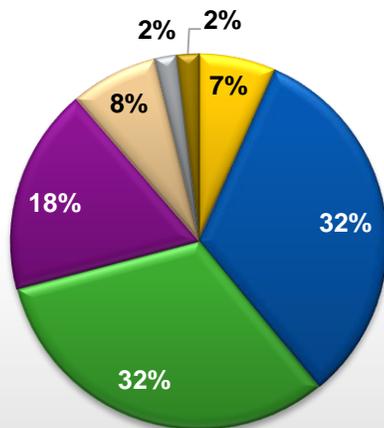
To ensure they are prepared for vendor software license audits most companies – 86 percent – perform self-audits at least once per year (up from 80 percent last year). Slightly more than half perform self-audits more than once per year (up from 45 percent last year).



Most Organizations Have Underused Software – “Shelfware”

When organizations fail to utilize all the software licenses they’ve purchased, they have idle software – or shelfware – which translates to waste in software spend. According to the survey, most organizations waste money on software that goes unused. 93 percent of organizations report spending money on at least some software that is underused. 30 percent of respondents admitted that 21 percent or more of their software spend is associated with applications that are underused.

What percentage of software license spend within your organization do you estimate is associated with applications that are underused (shelfware) and therefore over-licensed? (i.e. applications that are not fully deployed)



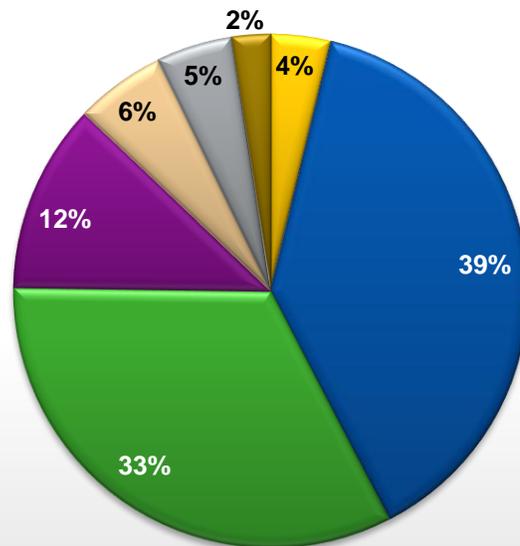
0% 1-10% 11-20% 21-30% 31-40% 41-50% > 50%

Most Organizations Aren't Fully Utilizing Their Software Entitlements

Entitlements – the product use rights, contained in the software license agreement, significantly impact an organization's license position. They define where, how and by whom a piece of software can be installed and/or used. Businesses must take full advantage of product use rights included in their contracts, such as their rights to upgrade, rights of second use, virtual use, etc., otherwise value they paid for is not being taken advantage of and, therefore, wasted.

According to the survey, most organizations are not fully utilizing the entitlements their product use rights allow. 96 percent of respondents say that at least some of their software budgets are wasted on entitlements that are not being used. A quarter of respondents say that 21 percent or more of their software spend is associated with software entitlements that are not used.

What percentage of software license spend in your organization do you estimate is associated with software that has license entitlements that are not being used?



0% 1-10% 11-20% 21-30% 31-40% 41-50% >50%

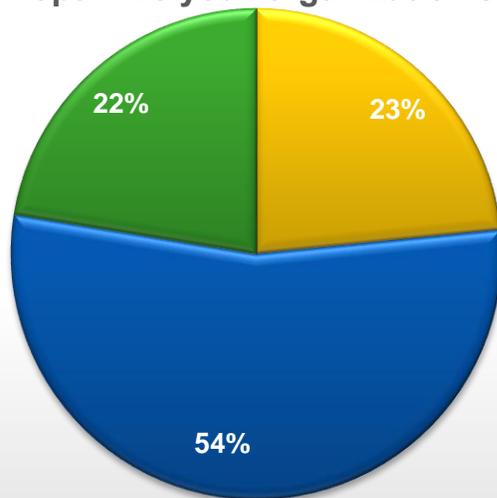
Failure to Optimize Software Licenses Could Account for Compliance, Shelfware and Software Underuse

Failure to comply with product use rights can throw an organization out of compliance with their contracts and expose them to expensive, usually unbudgeted true up fees in the event of a software license audit. Significant waste also occurs when organizations fail to fully utilize product use rights they've paid for – resulting in shelfware and underutilization of entitlements, as discussed above.

Not all SAM/Software License Optimization tools are created equally. Some provide full optimization. This means the tool takes into account product use rights and automatically reconciles those contract terms with actual usage to determine an organization's true license position – thus helping to ensure the organization is only buying what it needs and using what it has. Tracking and applying product use rights without the aid of a SAM/Software License Optimization tool is such an onerous, complex task that optimizing the software estate would be highly impractical if not impossible.

According to the survey, 22 percent of organizations do not apply product use rights in order to optimize their organizations' software license position. Only 23 percent do so for all vendors. And 54 percent do so only for key, high-value vendors.

Do you apply product-use rights (i.e. license entitlements that frequently allow you to have multiple installations of the software under a single license and/or entitle you to use additional applications) to optimize your organization's software license



■ Yes, for all vendors ■ Yes, for key high-value vendors ■ No

Conclusion

Software Asset Management/Software License Optimization is a growing imperative within organizations – most of which are looking to reduce software costs, ensure continual software license compliance, and bolster their cybersecurity defenses. Despite these aspirations, most enterprises are out of compliance with their software contracts, and simultaneously, most organizations also have unutilized or underutilized software assets (shelfware). These statistics are sobering, because most organizations are being audited by their software vendors, and when those audits uncover noncompliance, they are frequently resulting in six- and seven-figure audit true ups.

Enterprises need to get better at managing their software assets, and applying industry best practices to optimize their estate and eliminate risk. The good news is that organizations are increasingly aware of the challenges around Software Asset Management and are growing more proactive. However as the survey result indicates, they have a long way to go.

Survey Background

The *2016 Key trends in Software Pricing and Licensing* survey was conducted by Flexera Software. This annual research project looks at software licensing, pricing and enforcement trends and best practices. The survey reaches out to executives at application producers (Software vendors and intelligent device manufacturers) and enterprises who use and manage software and devices. Now in its tenth year, the survey is made available to the industry at large each year.

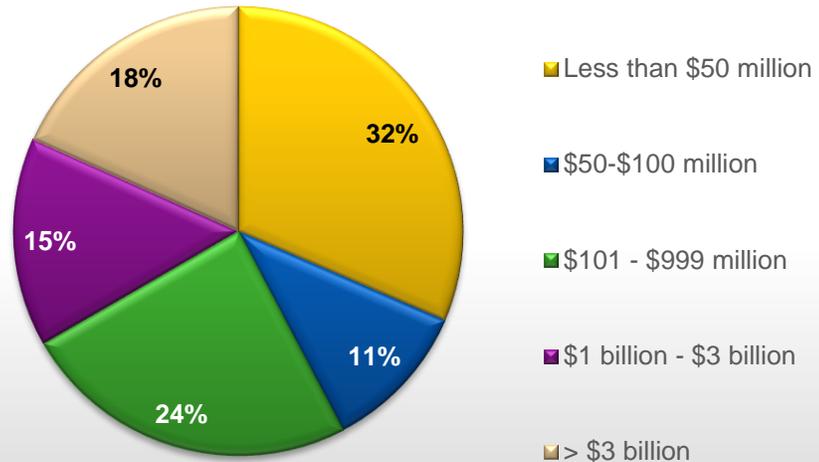
Methodology and Sampling

In total, 489 respondents participated in the survey, including 221 respondents to our enterprise survey and 268 respondents to our application producer survey.

Enterprise Demographics

33% of the enterprise respondents were from larger enterprises of \$1 billion or more in revenues and 18% were from companies with \$3 billion in revenues or more. Among other places, 56% of respondents were from the United States, and the remainder from 37 countries across all continents.

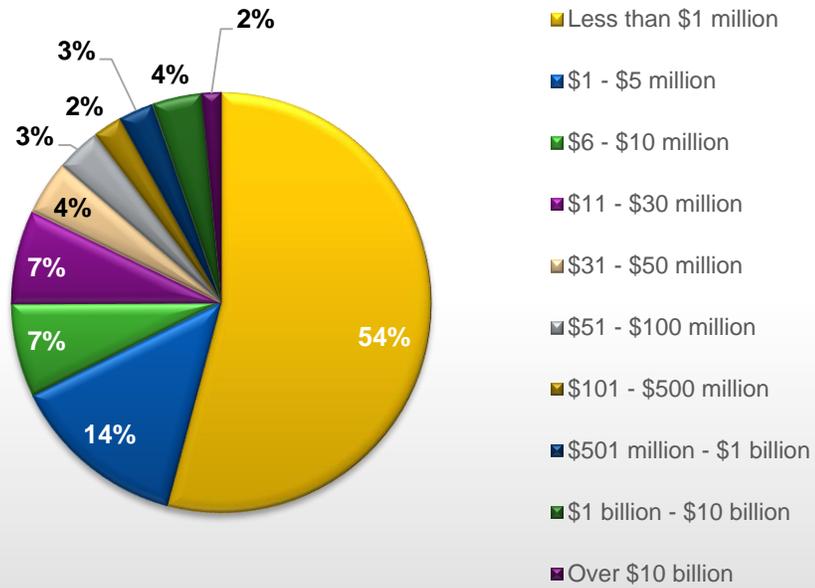
Which of the following best represents your annual company revenues?



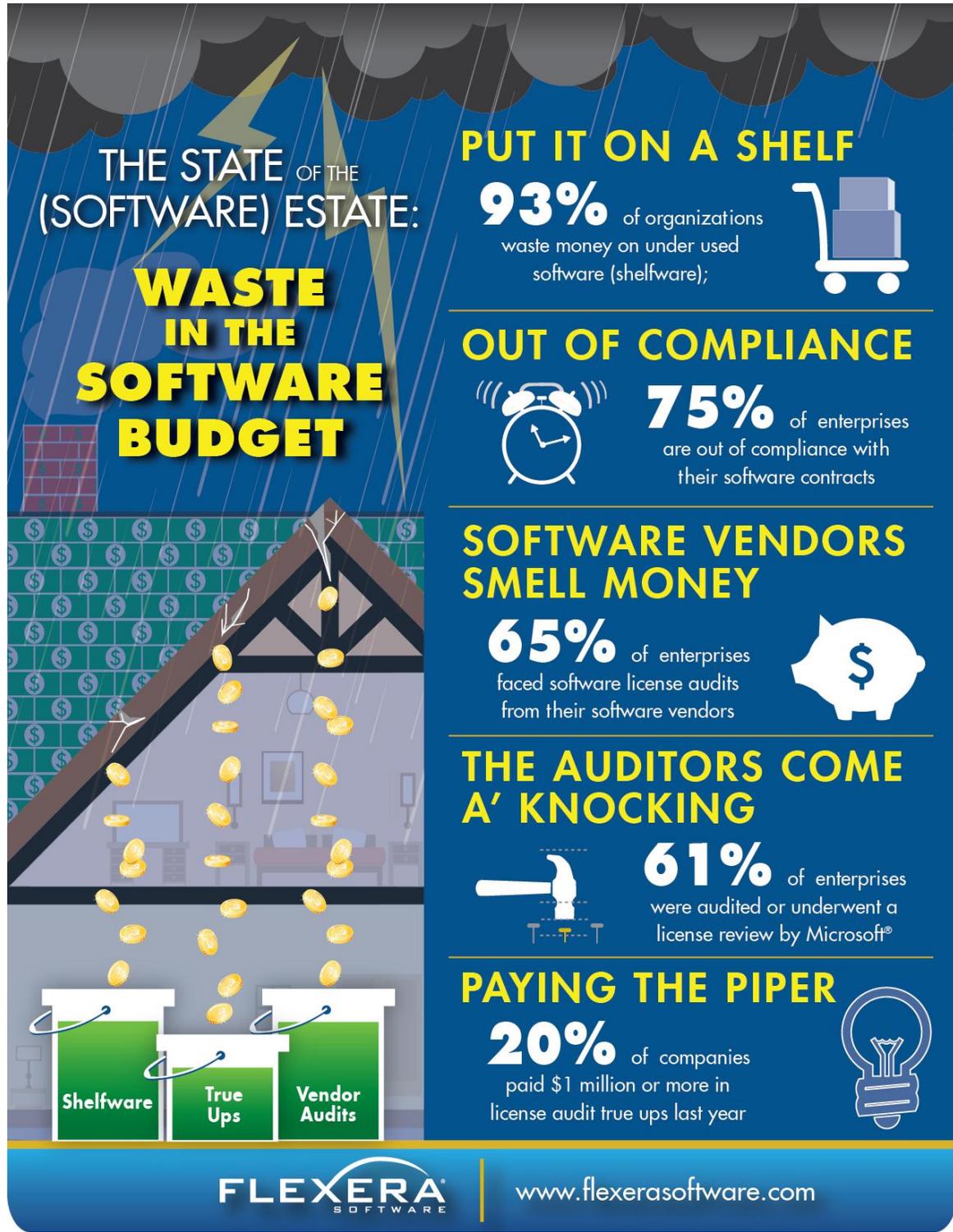
Application Producer Demographics

The largest segment of application producer respondents (54%) come from companies with under \$1 million in revenues. 6% of the respondents were from companies with \$1 billion or more in revenues. Among other places, 60% of respondents are from North America, and the remainder from 31 countries across all continents.

Which of the following represents your annual software license revenues (including any revenue from subscription software and/or embedded software in hardware devices)?



Infographic:



About Flexera Software

Flexera Software helps application producers and enterprises increase application usage and security, enhancing the value they derive from their software. Our software licensing, compliance, cybersecurity and installation solutions are essential to ensure continuous licensing compliance, optimized software investments, and to future-proof businesses against the risks and costs of constantly changing technology. A marketplace leader for more than 25 years, 80,000+ customers turn to Flexera Software as a trusted and neutral source of knowledge and expertise, and for the automation and intelligence designed into our products. For more information, please go to: www.flexerasoftware.com.



www.FlexeraSoftware.com